

Consultation for a special allocation and AUFG corrections

1. Introduction and purpose

This paper considers whether Gas Industry Co should direct the Allocation Agent to perform a special allocation pursuant to rule 51 of the Gas (Downstream Reconciliation) Rules 2008, following a notification by the Allocation Agent that a material error occurred at 22 gas gates during August 2017. It also considers whether to correct annual UFG (AUFG) factors at the Greater Mount Maunganui gas gate (GMM08001), pursuant to rule 46A of the Gas (Downstream Reconciliation) Rules 2008.

In accordance with rules 46A, 51 and with the [Guideline notes for rules 46A and 51](#), GIC invites feedback from allocation participants on whether the special allocation and AUFG factor corrections should be issued.

2. Special allocation

2.1 Background

A non-TOU calculation error by Switch Utilities resulted in the allocation system recording under-submissions at 22 gas gates for the final allocation of August 2017. The issue occurred because a calculation failure in Switch Utilities' process workbook was not picked up and meant that incorrect values were submitted to the allocation agent.

2.2 Impact

The error affected 22 gas gates (see appendix 1) and resulted in the allocation system recording an under-submission of 9,752 GJ across these gates for the final allocation of August 2017. This caused incorrect allocated quantities to be published. Across these gates eleven retailers were trading during the affected period and their allocated quantities were impacted as a result of the error.

Table 1: Estimated total difference between published and corrected allocated quantities across all affected gas gates (August 2017)

| Retailer Code | Current Allocated Quantity (GJ) | Corrected Allocated Quantity (GJ) | Difference (GJ) |
|---------------|---------------------------------|-----------------------------------|-----------------|
| CTCT | 302,065 | 299,900 | -2,165 |
| GEND | 235,075 | 235,075 | 1 |
| GENG | 430,314 | 427,539 | -2,775 |
| GEOL | 27,503 | 27,340 | -163 |
| GMTH | 302,785 | 302,781 | -4 |
| GNGC | 418,013 | 417,655 | -358 |
| GNVG | 630,785 | 628,054 | -2,731 |

| | | | |
|------|---------|---------|-------|
| MEEN | 137,175 | 136,264 | -911 |
| PUNZ | 7,184 | 7,150 | -34 |
| SULG | 0 | 9,838 | 9,838 |
| TRUS | 100,060 | 99,383 | -677 |

3. AUFG corrections

3.1 Background

High UFG has been an issue at GMM08001 since around mid-2014. An issue discovered during an audit in 2016 where ICPs were incorrectly reconciled between GMM08001 and Greater Tauranga (GTT07701) was initially thought to be the cause of the issue. However, when this issue was resolved in 2017 the UFG at GMM08001 remained high.

Recently GIC undertook further investigations into TOU load at GMM08001 and uncovered a potential under-metering issue at a TOU site supplied by OnGas. The suspected problem was confirmed by the meter owner and retailer as a fault and is understood to be the cause of the high UFG. It was not detected earlier because the customer had also made operational changes which provided a reasonable explanation for the apparent reduction in demand.

The meter has now been replaced and correct submissions have been made for July 2018 onwards. OnGas has supplied GIC with enough corrected consumption data to re-calculate the AUFG factors for the 2017 and 2018 gas years, beginning 1 October 2017 and 1 October 2018 respectively.

GIC recognises that this issue goes further than just impacting the AUFG for the 2017 and 2018 gas years however, for the sake of timeliness this paper only looks to make corrections for the current business as usual allocations. Any further actions will be consulted on at a later date once we have received all the corrected consumption data back to mid-2014 from OnGas and once a full materiality assessment of the entire period has been made.

3.2 Proposed new AUFG factor

GIC's manual re-calculation of AUFG at GMM08001, using the updated consumption data from OnGas, results in a notable improvement in UFG for both periods. Below is a comparison of the current AUFG for both periods and the corrected AUFG as calculated by GIC. Please note that if GIC goes ahead with the corrections then the allocation agent will perform the formal recalculation using the allocation system so the numbers in Table 2 should be considered an estimate.

Table 2: Current AUFG and proposed AUFG

| Gas Year | Current AUFG | Corrected AUFG | Improvement |
|---|--------------|----------------|-------------|
| 2017 (1 October 2017-30 September 2018) | 1.0471 | 1.0069 | 0.0401 |
| 2018 (1 October 2018-30 September 2019) | 1.0446 | 1.0111 | 0.0336 |

4. Summary

Special allocations and corrections to AUFG factors are generally directed where the unfairness of the current allocation result/AUFG factor is sufficient to justify an update.

4.1 Special allocation

Before directing the Allocation to perform a special allocation, rule 51 requires GIC to determine the current allocation results as sufficiently unfair after considering any commercial reasons for retaining current results. The current guidelines for determining if allocations are sufficiently unfair, include materiality thresholds of whether:

- a) there is a change in a retailer's allocated quantity at an allocated gate of more than 1,000GJ;
- b) there is a change in a retailer's total allocated quantities across all allocated gas gates of more than 2,000GJ; and
- c) there are any other matters including financial impacts that, in the particular circumstances surrounding the error and its effect, the correction of that error is reasonably considered to result in a materially different allocation.

The second threshold has been met as a result of Switch Utilities' under-submission and therefore GIC's preliminary view is to support directing the allocation agent to perform a special allocation.

4.2 AUFG corrections

As per the guideline note for correcting an AUFG factor under rule 46A, corrections are justified and may be made where:

- a) the change in the magnitude of the AUFG factor is in the order of 0.01; and/or
- b) the AUFG correction results in the movement of 1,000GJ between TOU and non-TOU allocations in any one month.

The first threshold is satisfied for both gas years and therefore GIC initially supports correcting the AUFG factors.

4.3 Consultation

The preliminary views reached above are GIC's initial position only and are dependent on stakeholder feedback. It is important retailers give an indication of whether there are financial or other commercial drivers that will influence GIC's assessment of the unfairness of the submission error and the AUFG factor. We request any retailer with a view to contact us via submission.

The deadline for submissions is close of business on **Friday 19 October 2018**.

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25 September 2018

1. Appendix 1 – Gas Gates affected by Switch Utilities' submission error

| Gas Gate |
|----------|
| BEL24510 |
| GIS07810 |
| GTA03610 |
| GTH11301 |
| GTT07701 |
| GTW06910 |
| HST05210 |
| HWA20801 |
| IGW11901 |
| NGW14501 |
| NPL12101 |
| PAU20101 |
| PLN24201 |
| PUK04201 |
| ROT08101 |
| TAU07001 |
| TWA35610 |
| WHG07501 |
| WHK32101 |
| WRK18901 |
| WTK33901 |
| WTR12001 |

ABOUT GAS INDUSTRY CO.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.